NOTE 5 – TREASURER'S COMMON CASH

A. General Accounting Policies

The State Treasurer manages the State's Common Cash pool, which is used by most state funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool, and presented in this report as "Equity in common cash." Many funds, including pension (and other employee benefit) trust funds, use their equity in the pool as a short-term investment vehicle.

All negative balances in the pool are reclassified at year-end as interfund liabilities. If the negative balance is considered long-term, the reclassification is recorded as an advance.

Statute or administrative policy determines whether a particular fund receives or pays interest on its balances in the pool. If a fund does not receive or pay interest, the General Fund receives or absorbs such amounts. Earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets, with the accrual allocated to the various funds' equity in the pool. Interest revenues on positive balances and interest charges on negative balances are reflected as revenues or expenditures/ expenses of each of the participating funds.

B. Investments and Deposits

The investment authority for the Common Cash pool is found in P.A. 105 of 1855, as amended. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes, and other evidences of indebtedness of the United States Government, and its agencies; and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State.

The Treasurer invests excess cash in short-term investments, mostly prime commercial paper. The law does not prohibit the Treasurer from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in fiscal year 2002-2003.

Statutes provide for certain special State investment programs for which the General Fund is credited (charged) for earnings in excess (under) of those achieved by regular pool investments. There have been no principal losses because of these programs to date.

<u>Emergency Financial Assistance Loan Program</u>: This program provides for emergency loans to local units of government, and is the most significant of the special investment programs. The Emergency Financial Assistance Loan Board, established by P.A. 243 of 1980, administers the program. The Treasurer may not loan more than a combined total of $5.0 million in any one fiscal year to qualifying cities, villages, or townships in amounts as approved by the Board.

In fiscal year 1999-2000 the Emergency Financial Assistance Loan Board was authorized to approve the lending of up to $159.9 million to Wayne County to finance the payment of certain obligations to the State. The outstanding balance at September 30, 2003, was $46.8 million. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County's share of a portion of the State collected taxes on cigarettes. There were no repayments on the loans in fiscal year 2002-2003.

<u>Michigan Marina Dredging Loan Program</u>: Public Act 280 of 2000 provides for a program under which financial institutions may make low-interest loans to eligible marinas for dredging costs necessitated by low water levels to accommodate the use of the marina by recreational watercraft.

Under this program, the Department of Treasury and a financial institution may enter into an investment agreement under which the Department of Treasury will invest the State's Common Cash with the financial institution at an agreed upon interest rate (generally 1.5 percent per annum). The financial institution will then use the principal to make a low-interest loan to an eligible marina.

The Act specifies that the maximum amount of a Michigan marina-dredging loan is $75 thousand per marina. The total amount of outstanding loans is statutorily limited to $20.0 million. The loans accrue interest at a rate of six percent, and the loans' terms may not exceed seven years. Other details about the loans are available in the investment agreement. The total amount on loan at September 30, 2003, was $268 thousand; repayments during the year were $247 thousand.

<u>Michigan Sugar Beet Loan Program</u>: Public Act 123 of 2001 provides for a program in which the State may make no-interest loans from the Common Cash pool to sugar beet growers' cooperatives for the purpose of buying the assets of agricultural processors who are in or have recently been in bankruptcy proceedings.

The Act specifies that the loans may not exceed $5.0 million in total, with loan periods not to exceed 5 years. As of September 30, 2003, the loans outstanding totaled $5.0 million, with maturity dates of February 1, 2007.

<u>Agriculture Disaster Relief Program</u>: Public Act 16 of 2002 created this program to provide loans to assist farmers and businesses suffering losses as a result of a disaster. Financial institutions (banks) making these loans can have the cost of the loan covered by (1) earnings on funds deposited by the State, or (2) subsidy of the cost.

The maximum loan is $150 thousand ($200 thousand under certain circumstances) to farmers and $400 thousand per legal entity to businesses. The total amount the State may deposit under this program is $30.0 million. Of that amount, no more than $10.0 million may be allocated to qualified agricultural loans made to businesses. Details on what constitutes a qualified loan can be found in the statute. Loans must be made before October 1, 2002, and must be repaid by October 1, 2007.

As of September 30, 2003, the State had deposited a total of $6.7 million with three different financial institutions. Subsidy payments totaled $4.0 million and repayments totaled $30 thousand.

Assets and equities of the Common Cash pool as of September 30 were as follows (in millions):

Assets	
Cash on hand	$ -
Demand deposits	557.6
Time deposits - regular	-
Time deposits - Marina Loan Programs	.4
Time deposits - Agricultural Loan Program	6.7
Prime commercial paper - at cost	1,558.9
Interest receivable	1.4
Emergency loans to local units - at cost	47.9
Michigan Sugar Beet Loan Program	5.0
Total assets	$ 2,177.9
Equities	
Fund equities (net) in Common Cash (1):	
Governmental activities	$ 1,697.5
Business-type activities	75.5
Fiduciary funds	273.8
Discretely presented component units	131.0
Net fund equities	$ 2,177.9

(1) Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with "Amounts due from other funds" and "Amounts due to other funds" and long-term amounts are classified as interfund advances. Note 17 summarizes interfund receivables and liabilities.

The following paragraphs provide disclosures about deposits and investments of the Common Cash pool, as required by GASB Statement No. 3. Please see Note 8 for a description of the GASB custodial credit risk categories and for information about deposits and investments, which are not part of the Common Cash pool.

Deposits

At September 30, 2003, the carrying amount of deposits, including time and demand deposits, was $564.7 million. The deposits were reflected in the accounts of the banks at $564.3 million. Of the bank balance, $4.3 million was covered by federal depository insurance (GASB credit risk category 1), $556.6 million was collateralized with securities held by the State's agent in the State's name (GASB credit risk category 1), and $3.4 million of demand deposits which are uninsured and uncollateralized (GASB credit risk category 3). Compensating balances kept in demand deposit accounts to avoid service charges totaled $539.6 million at September 30, 2003.

Investments

Using the GASB categories of custodial credit risk, all of the investments (including prime commercial paper, corporate notes, and emergency municipal loans) are in category 1. The sugar beet loans are evidenced by zero interest promissory notes. The emergency municipal loans are evidenced by notes held by the State in the State's name, so they fall in custodial credit risk category 1. At September 30, 2003, the fair value of prime commercial paper was $1.6 billion.